

# Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Thembisile Hani Local Municipality

## Report on the audit of the financial statements

### Qualified opinion

1. I have audited the financial statements of the Thembisile Hani Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effect of the matter described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Thembisile Hani Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### Basis for qualified opinion

#### Property rates

3. The municipality did not recognise property rates in accordance with GRAP 23, *Revenue from non-exchange transactions*, as a number of properties on the municipality's billing report were not eligible to be billed. In addition, the municipality did not bill all consumers in the financial year under review. The effect on the financial statements was that property rates was overstated by R25 million with a corresponding overstatement of receivables from non-exchange transactions by the same amount.
4. I was unable to obtain sufficient appropriate audit evidence for property rates, as the municipality did not perform a reconciliation between the valuation roll and the consumer billing report. Due to the inadequate status of the accounting records, I was unable to confirm the property rates by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates stated at R42,3 million and receivables from non-exchange transactions stated at R3,6 million in the financial statements.

## **Context for the opinion**

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
6. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

9. As disclosed in notes 42 and 43 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

## **Material impairment - Receivables**

10. As disclosed in note 10 to the financial statements, the receivables from exchange and non-exchange transactions balance was significantly impaired. The allowance for the impairment of the receivables from exchange and non-exchange transactions amounted to R1 billion (2018-19: R839,2 million), which represented 99% (2017-18: 95%) of the total receivables from exchange and non-exchange transactions. The contribution to the provision for debt impairment was R224,5 million (2017-18: R96,4 million).

## **Material losses - Water**

11. As disclosed in note 6 to the financial statements, material water losses of R33,3 million (2017-18: R25,3 million) were incurred, which represented 24% (2017-18: 17%) of the total water purchased. The losses were due to ageing infrastructure that caused leakages in the water bulk line.

## **Irregular expenditure**

12. As disclosed in note 48 to the financial statements, the municipality incurred irregular expenditure of R9 128 547, as a result of non-compliance with the Supply Chain Management (SCM) Regulations.

### **Fruitless and wasteful expenditure**

13. As disclosed in note 47 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R820 989, as a result of non-compliance with the indigent subsidy and free basic services provision policy as well as an advance payment to a service provider.

### **Other matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited disclosure notes**

15. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

### **Responsibilities of the accounting officer for the financial statements**

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2019:

Development priorities	Pages in the annual performance report
KPA 1 – basic service delivery and infrastructure development	xx – xx

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. I did not raise any material findings on the usefulness and reliability of the reported performance information for this development priority.

### Other matter

25. I draw attention to the matter below.

### Achievement of planned targets

26. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

## **Report on the audit of compliance with legislation**

### **Introduction and scope**

27. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
28. The material findings on compliance with specific matters in key legislation are as follows:

### **Annual financial statements**

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records provided, but the uncorrected material misstatement resulted in the financial statements receiving a qualified audit opinion.

### **Expenditure management**

30. Reasonable steps were not taken to prevent irregular expenditure amounting to R9,1 million, as disclosed in note 48 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by non-compliance with the SCM Regulations.
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R800 989, as disclosed in note 47 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the fruitless and wasteful expenditure was due to the overpayment of suppliers and employees.

### **Human resource management**

32. Appropriate systems and procedures to monitor, measure and evaluate the performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

## Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected development priority presented in the annual performance report that has been specifically reported on in this auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
35. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected development priority presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. The other information I obtained prior to the date of this auditor's report was management reports, performance of external service providers and measures taken to improve performance. The oversight reports are expected to be made available to me after 30 November 2019.
37. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
38. When I do receive and read the oversight reports, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.
40. Management did not maintain adequate accounting records to support the financial information reported. Daily and monthly processing controls were not implemented to ensure that the reported financial information was accurate and complete. Furthermore, review and reconciliation measures were not implemented to detect and correct errors in the financial information reported.

41. As the municipality did not have adequate systems to monitor compliance with all applicable legislation, non-compliance with legislation was not prevented.

Auditor - General.

Mbombela

30 November 2019



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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected development priority and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.